



LGIP QUARTERLY MEETING & CONFERENCE CALL

August 7, 2014

OFFICE OF THE ARIZONA STATE TREASURER



AGENDA

- **LGIP Performance**
- **Endowment Performance and Distributions**
- **Pooled Collateral Program**
- **State Cash Flow**
- **Guest Presentation:**
Market Overview and Investment Strategies, Jim Palmer, CFA, Chief Investment Officer, U.S. Bancorp Asset Management, Inc.
- **Q & A**



INVESTMENT PHILOSOPHY

SAFETY

before

LIQUIDITY

before

YIELD



EARNINGS FOR FY 2014

\$130,283,112





LGIP PERFORMANCE

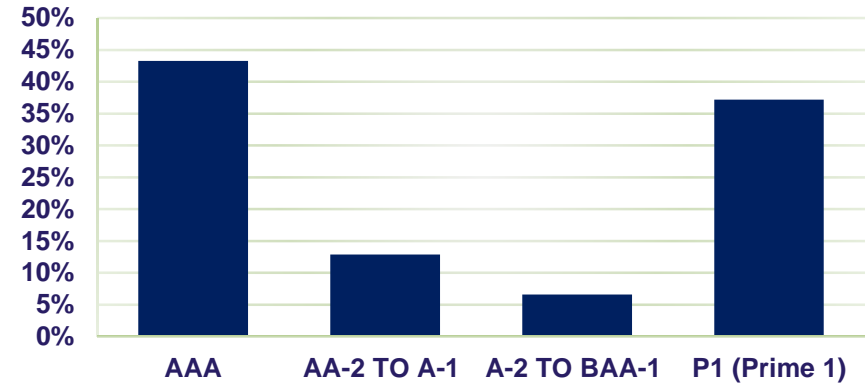
Q4 FY2014



Pool 5 – LGIP

- Rated AAf (Highest Rating Available)
- \$1.1 Billion in Assets as of 6/30/2014
- 100% Duration Inside 1 year
- Diversified Highly Rated Investments Including Repurchase Agreements, Commercial Paper, and Government Securities
- 80% of the Assets are Cash Equivalent Securities

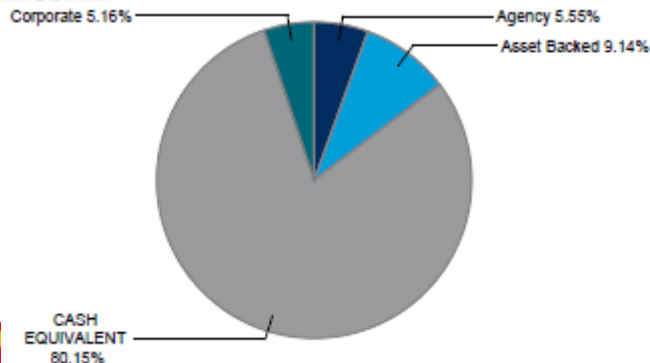
SAFETY: Distribution of Holdings (Moody's Ratings)



LIQUIDITY: 80% of Assets Mature Within 90 Days

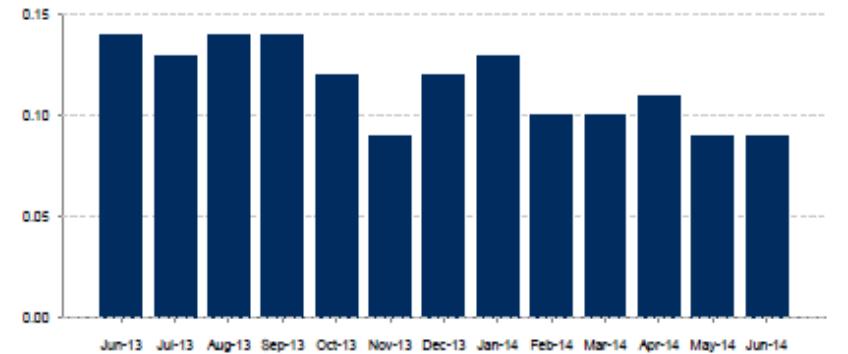
Portfolio Level Characteristics

	POOL 5 LGIP
Weighted Average Life	0.12
Coupon	0.23
Effective Duration	0.11
Quality Rating (S&P)	AA



YIELD: .09% (June 2014)

Net Yield



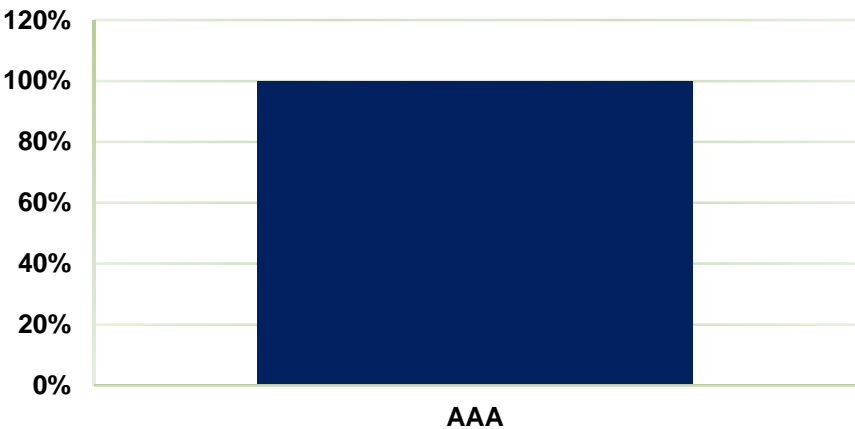
	Current Mth	Prior Mth	1 Year Ago
POOL 5 LGIP	0.09	0.09	0.14



Pool 7 – Gov’t LGIP

- \$950 Million in Assets as of 6/30/2014
- 100% Duration Inside 1 year
- 100% of the Assets are Guaranteed by the Full Faith and Credit of the United States of America
- 92% of the Assets are Cash Equivalent Securities

SAFETY: Distribution of Holdings (Moody's Ratings)

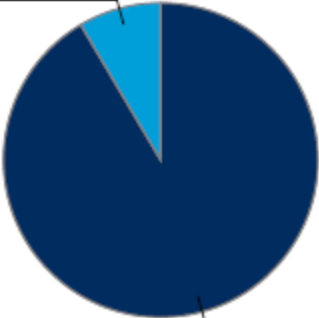


LIQUIDITY: 88% of Assets Mature Within 90 Days

Portfolio Level Characteristics

	POOL 7 LGIP FF&C
Weighted Average Life	0.11
Coupon	0.28
Effective Duration	0.07
Quality Rating (S&P)	AA+

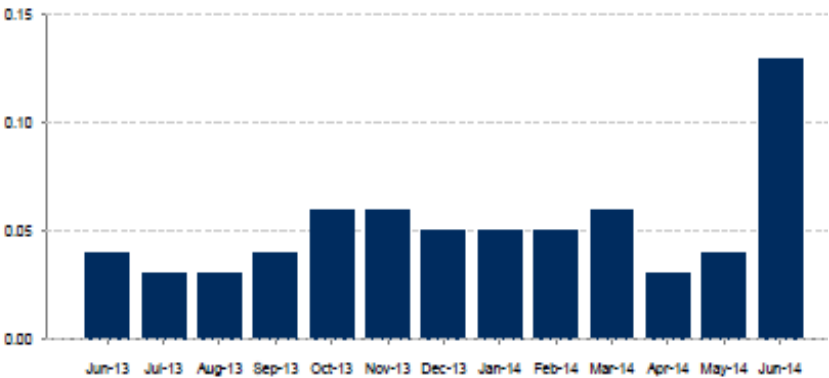
US Treasury 8.49%



CASH EQUIVALENT 91.51%

YIELD: .13% (June 2014)

Net Yield



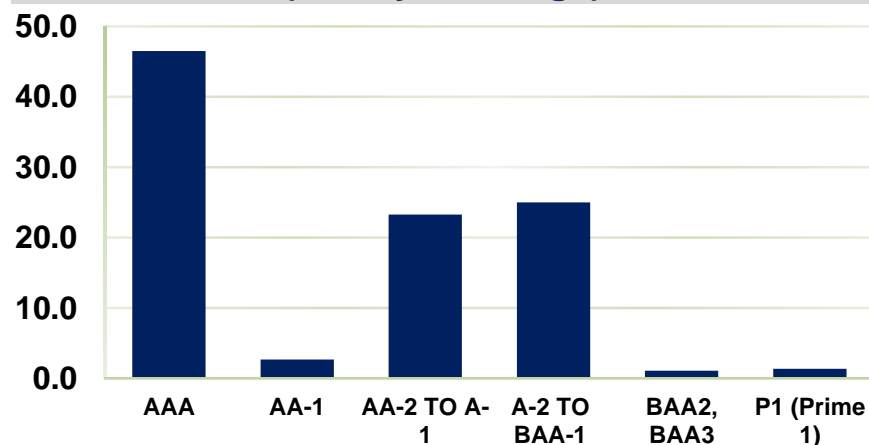
	Current Mth	Prior Mth	1 Year Ago
POOL 7 LGIP FF&C	0.13	0.04	0.04



Pool 500 – Medium Term LGIP

- \$275 Million in Assets as of 6/30/2014
- Net Asset Value (share price) of \$1.034 as of 6/30/2014
- 50% Duration Inside 1 year
- 100% of the Assets are Investment Grade or Better (47% are rated AAA)
- Well Diversified Portfolio of Assets With No More Than 2.5% Exposure to Any Single Corporate Asset

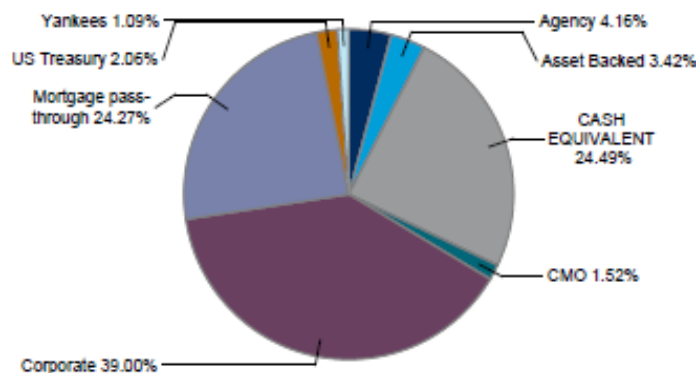
SAFETY: Distribution of Holdings (Moody's Ratings)



LIQUIDITY: 24% of Assets Mature Within 90 Days

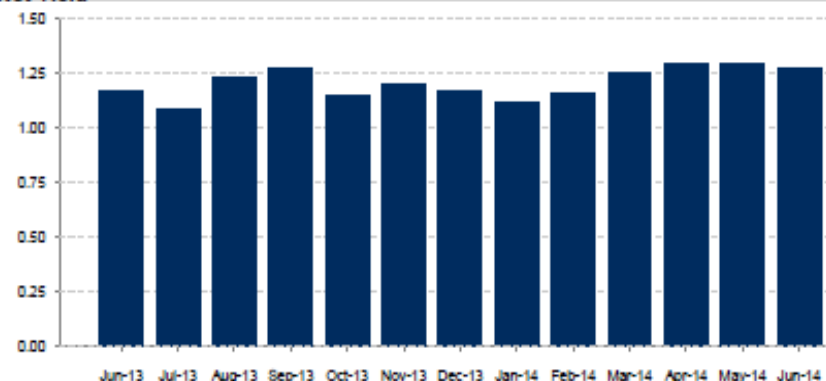
Portfolio Level Characteristics

POOL 500 LGIP MED	
Weighted Average Life	2.03
Coupon	1.81
Effective Duration	1.64
Quality Rating (S&P)	AA-



YIELD: 1.27% (June 2014)

Net Yield



	Current Mth	Prior Mth	1 Year Ago
POOL 500 LGIP MED	1.27	1.30	1.17

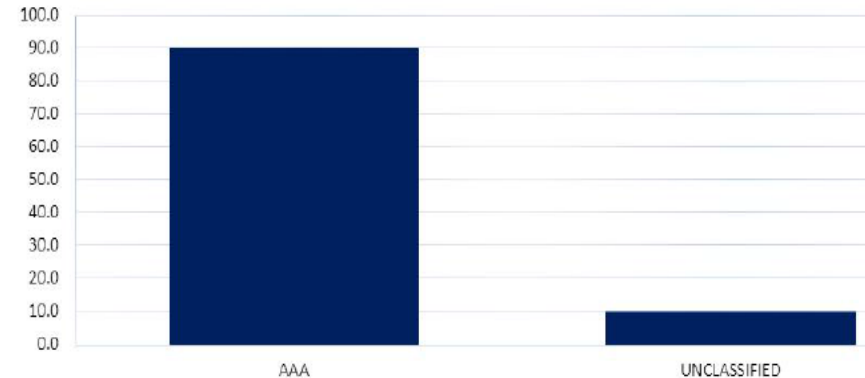


Pool 700 – Gov't Medium Term LGIP

- \$177 Million in Assets as of 6/30/2014
- Net Asset Value (Share Price) of \$1.007 as of 6/30/2014
- 34% Duration Inside 1 year
- 100% of the Assets are Guaranteed by the Full Faith and Credit of the United State of America
- Well Diversified Portfolio of Assets Across All available U.S. Full Faith and Credit Securities

SAFETY: Distribution of Holdings (Moody's Ratings)

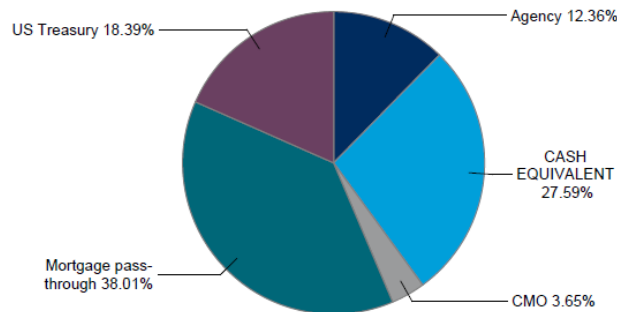
Rating Distribution



LIQUIDITY: 28% of Assets Mature Within 90 Days

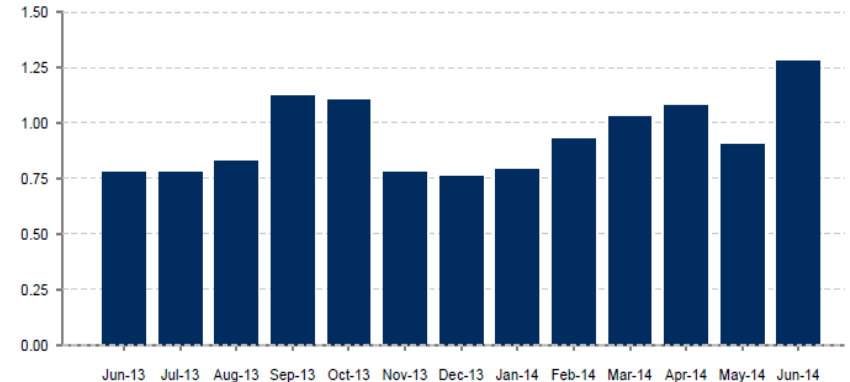
Portfolio Level Characteristics

POOL 700 LGIP MD	
Weighted Average Life	2.61
Coupon	1.85
Effective Duration	2.18
Quality Rating (S&P)	AA+



YIELD: June 1.28%

Net Yield



	Current Mth	Prior Mth	1 Year Ago
POOL 700 LGIP MD FF&C	1.28	0.90	0.78





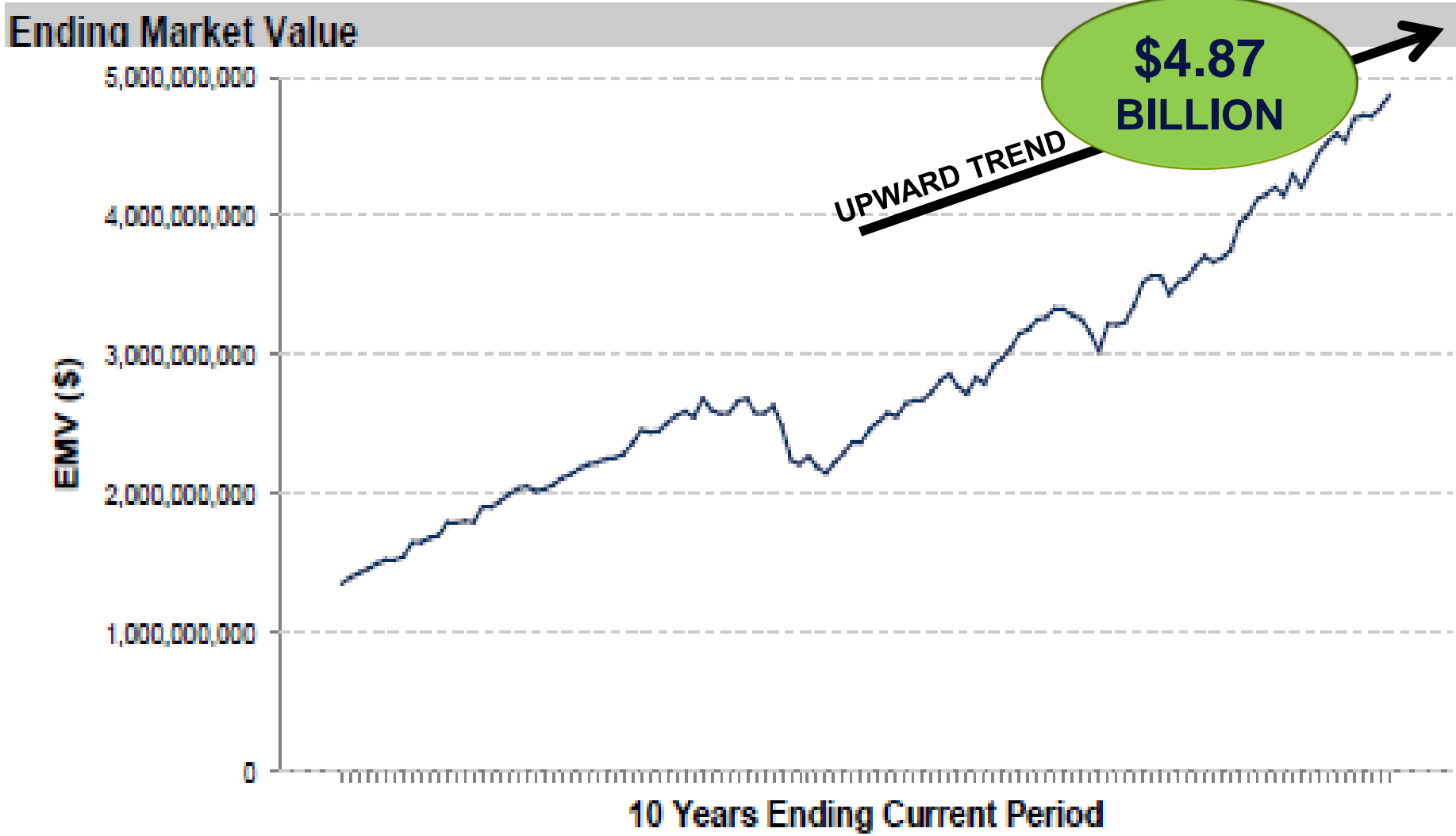
ENDOWMENT PERFORMANCE

Q4 FY2014

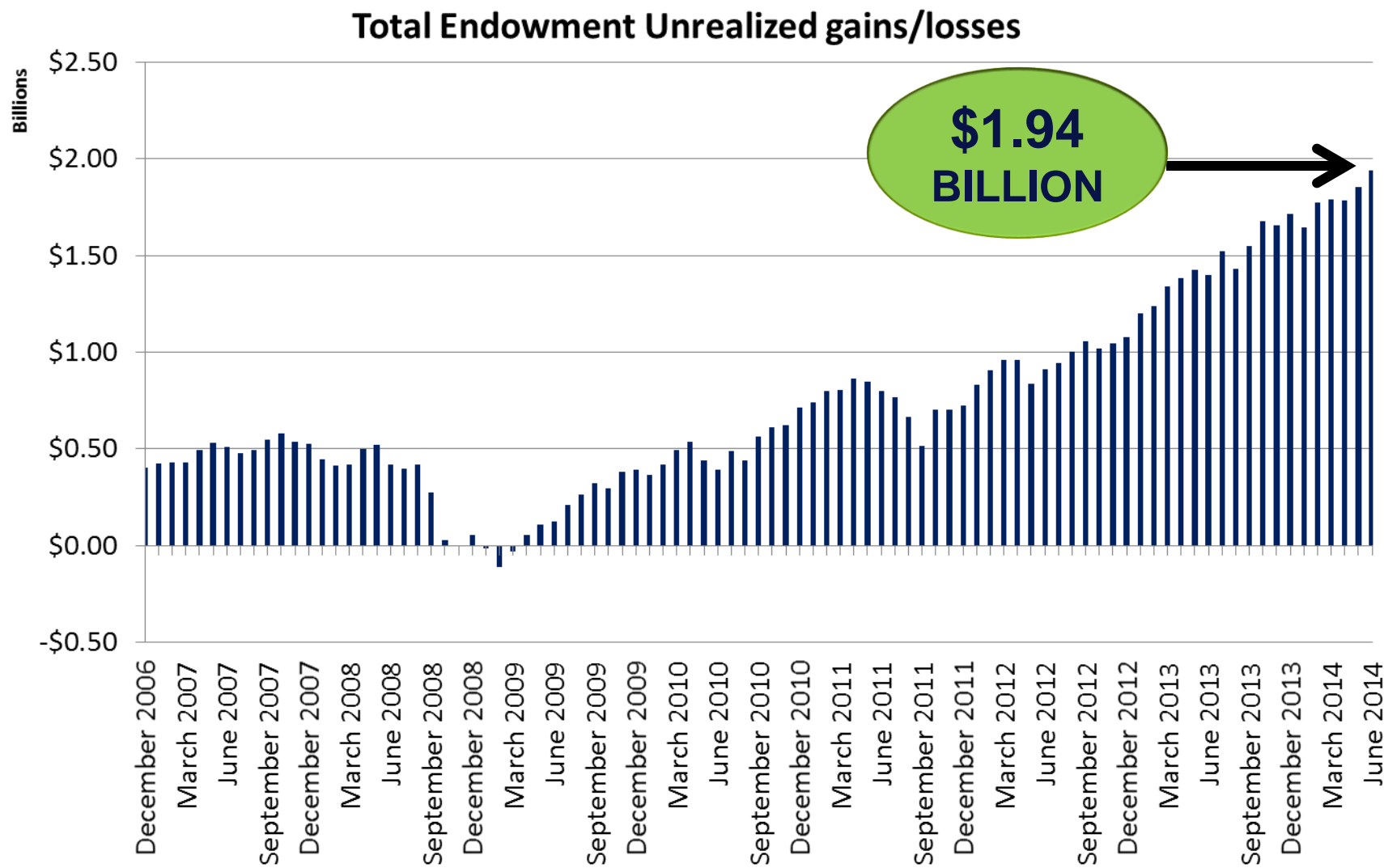
OFFICE OF THE ARIZONA STATE TREASURER



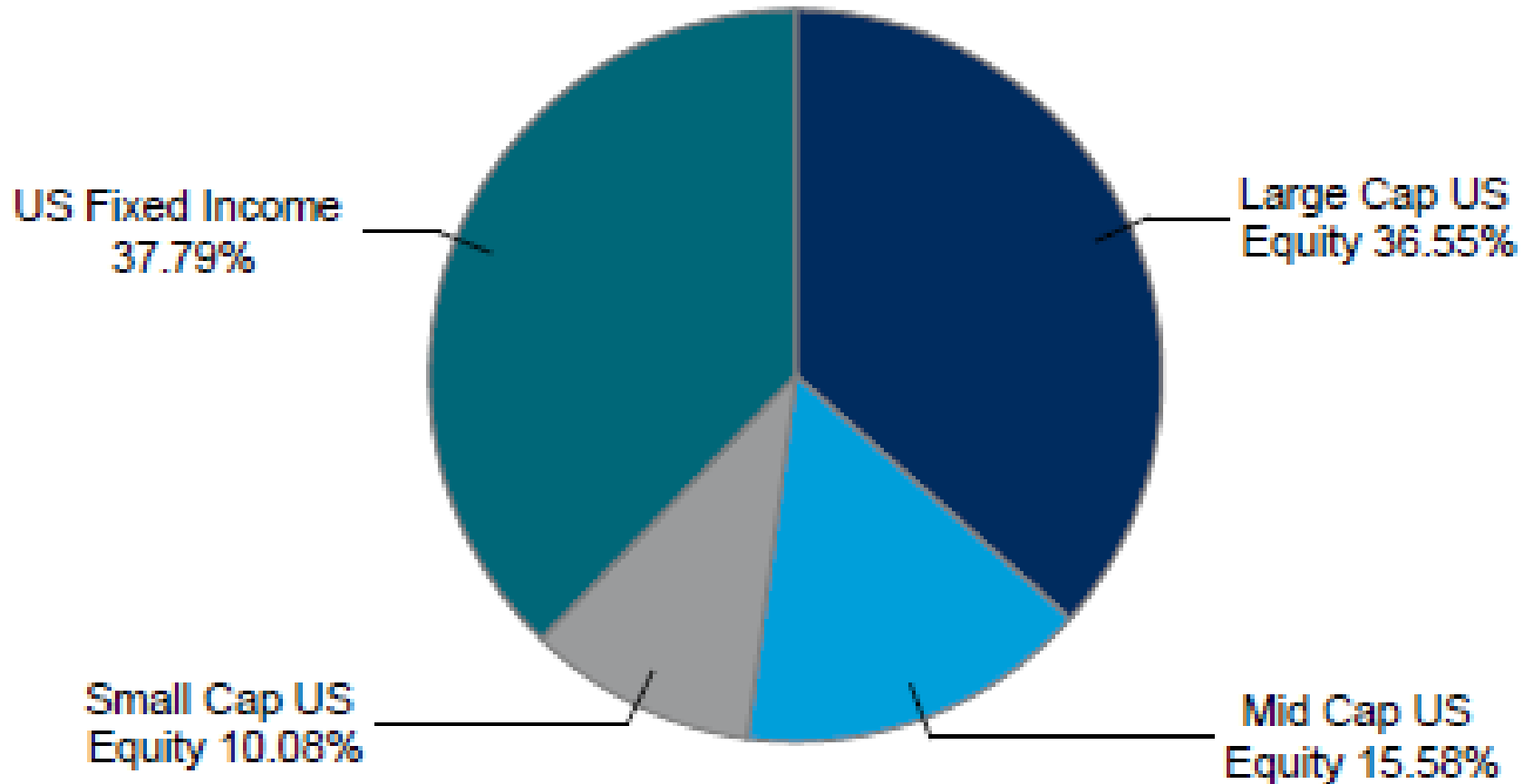
ENDOWMENT MARKET VALUE



ENDOWMENT UNREALIZED GAINS



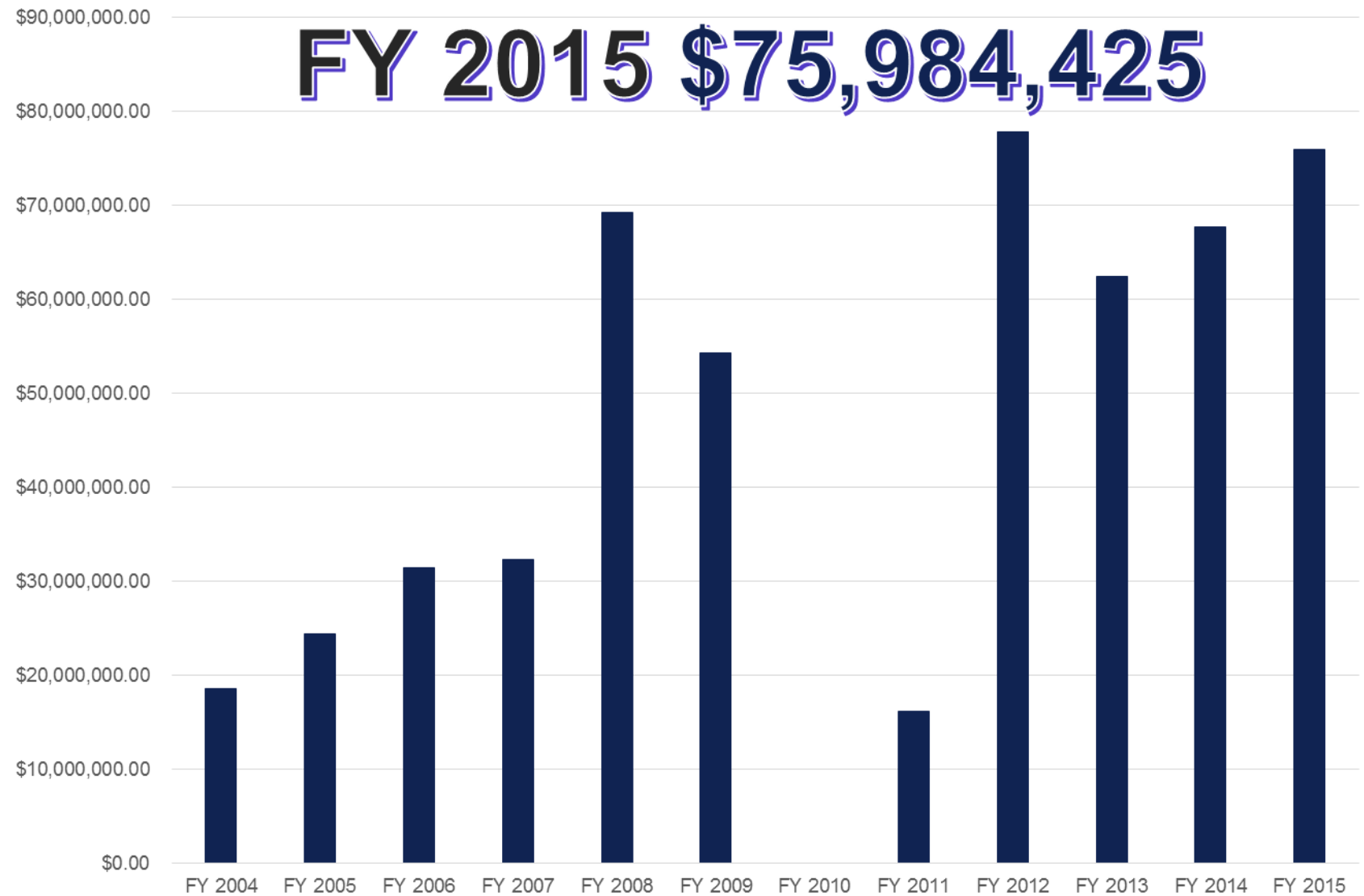
ENDOWMENT ASSET ALLOCATION



Endowment Market Value
\$4,868,539,602
as of 6/30/2014



K-12 DISTRIBUTIONS





POOLED COLLATERAL PROGRAM

OFFICE OF THE ARIZONA STATE TREASURER



POOLED COLLATERAL

- In accordance with A.R.S. § 35-1202 the Treasurer's Office began monitoring and reporting collateral held for all Arizona public deposits on July 1, 2014
- Daily, Monthly Collateral Holdings, and Monthly Certification reports are available at: <http://www.aztreasury.gov/pooled-collateral-reports/>
- Monthly statements should be sent no later than August 19th for July
- If there are any discrepancies between the statement from the Treasurer's Office and your bank statement reports, please contact us at PooledCollateral@aztreasury.gov



DAILY REPORT

State of Arizona
Office of the State Treasurer
8/1/2014 03:17 PM

Arizona Pooled Collateral Daily Depository Report For: Thursday, July 31, 2014



Depository	Demand Deposit Ledger Balance	Interest Bearing Ledger Balance	FDIC/NCUA Coverage	Uninsured Balance	Required Collateral	Market Value of Collateral	Collateral Percentage
1st Bank Yuma	915,861.60	8,425,557.47	1,117,595.05	8,223,824.02	8,388,300.50	10,336,471.45	125.69
Bank of America	318,436,235.58	7,985,103.40	8,762,586.23	317,658,752.75	324,011,927.80	555,082,142.94	174.74
Bank of the West	15,194,943.88	50,245,515.38	7,646,734.42	57,793,724.84	58,949,599.34	89,654,711.30	155.13
BBVA Compass	2,505,419.00	1,845,081.00	2,420,268.00	1,930,232.00	1,968,836.64	2,500,000.00	129.52
BMO Harris Bank	1,358,836.70	702,244.37	500,000.00	1,561,081.07	1,592,302.69	10,004,700.00	640.88
Desert Schools FCU	100,605.67	1,537,998.14	620,333.49	1,018,270.32	1,038,635.73	4,906,004.25	481.80
FirstBank	50,386.88	319,921.65	370,308.53	0.00	0.00	18,863,080.00	
Great Western Bank	50,324,791.92	8,427,596.07	5,402,244.82	53,350,143.17	54,417,146.03	77,083,173.98	144.49
JPMorgan Chase Bank	265,077,200.66	183,949,103.70	32,780,060.35	416,246,244.01	424,571,168.89	482,273,959.38	115.86
Meridian Bank	0.00	1,036,519.60	596,842.67	439,676.93	448,470.47	1,659,842.02	377.51
Mission Bank	85,928.92	1,010,896.52	250,000.00	846,825.44	863,761.95	1,571,395.52	185.56
Mohave State Bank	4,682,897.00	8,111,794.00	1,627,847.00	11,166,844.00	11,390,181.00	13,000,000.00	116.42
National Bank of Arizona	48,702,084.09	80,197,618.93	16,788,306.68	112,111,396.34	114,353,624.27	125,000,000.00	111.50
Northern Trust Company	0.00	3,209,026.05	333,015.00	2,876,011.05	2,933,531.27	27,718,739.94	963.79
US Bank	3,624,254.95	43,956.20	561,407.20	3,106,803.95	3,168,940.03	8,000,000.00	257.50
Wells Fargo Bank	528,967,147.14	731,059,608.85	70,035,132.94	1,189,991,623.05	1,213,791,455.51	1,603,782,051.08	134.77
West Valley National Ban	504,365.95	448,881.97	497,834.16	455,413.76	464,522.04	767,071.40	168.43
Western Alliance Bank	11,917,043.53	375,429,362.23	313,801,439.98	73,544,965.78	75,015,865.10	98,961,272.27	134.56
Western Bank	13,423.02	429,689.25	250,000.00	193,112.27	196,974.52	849,788.50	440.05
Total:	1,252,461,426.49	1,464,415,474.78	464,361,956.52	2,252,514,944.75	2,297,565,243.78	3,132,014,404.03	

Notice:

Deposit balances and the market value of collateral are provided by depository institutions and 3rd-party custodial banks and the data is unaudited



MONTHLY COLLATERAL REPORT

State of Arizona
Office of the State Treasurer
8/1/2014 03:23 PM

Arizona Pooled Collateral Monthly Collateral Report For: July 2014



Depository	Cusip	Description	Par Value	Face Value	Market Value	Market Price	Coupon	Maturity Date
1st Bank Yuma								
Securities Held by: Wells Fargo Securities								
	3133X0PF0	FED HOME LN BK	1,000,000.00	1,000,000.00	1,143,909.99	114.39	5.3750	2018-08-15
	313380PB8	FED HOME LN BK	1,000,000.00	1,000,000.00	973,180.01	97.32	1.3750	2019-09-13
	313379EE5	FED HOME LN BK	1,000,000.00	1,000,000.00	988,150.02	98.82	1.6250	2019-06-14
	3133XUMS9	FED HOME LN BK	1,000,000.00	1,000,000.00	1,121,370.01	112.14	4.5000	2019-09-13
	3137EADM8	FED HOME LN MTG CORP	1,000,000.00	1,000,000.00	966,050.03	96.61	1.2500	2019-10-02
	3137EADG1	FED HOME LN MTG CORP	2,000,000.00	2,000,000.00	1,995,119.94	99.76	1.7500	2019-05-30
	3137EACA5	FED HOME LN MTG CORP	1,000,000.00	1,000,000.00	1,089,469.99	108.95	3.7500	2019-03-27
	38376WZC2	GNMA REMIC SER 15 VA	500,000.00	335,432.32	355,939.31	106.11	4.5000	2021-07-20
	38376TDT6	GNMA REMIC SER 2 PU	1,000,000.00	653,862.71	712,892.14	109.03	5.0000	2021-01-20
	912828RT9	US Treasury Note	1,000,000.00	1,000,000.00	990,390.01	99.04	1.3750	2018-11-30
Total for 1st Bank Yuma:			10,500,000.00	9,989,295.03	10,336,471.45			
Bank of America								
Securities Held by: FHLB of Atlanta								
	FHLBATL06	FHLB ATLANTA LOC	250,000,000.00	250,000,000.00	250,000,000.00	1.00	0.0000	2014-07-31
Securities Held by: The Federal Reserve Bank								
	36179MCZ1	G2SF POOL-MA0088	1,971,000.00	1,506,074.17	1,561,169.31	103.37	3.5000	2042-05-20
	36179ME30	G2SF POOL-MA0154	372,997,151.00	292,809,346.93	303,520,973.63	103.37	3.5000	2042-06-20
Total for Bank of America:			624,968,151.00	544,315,421.10	555,082,142.94			
Bank of the West								
Securities Held by: Wells Fargo Securities								
	3137AJYW8	PH 3977C AC SEQ FIX	718,390.00	338,314.53	345,429.12	101.89	3.0000	2029-09-15
	3137B56H1	PH 4257A A SEQ FIX	200,000.00	183,397.81	184,925.59	100.64	2.5000	2027-10-15
	3132HM3Y5	PHLMC GOLD 30 YR	7,500,000.00	6,558,526.58	6,425,407.83	98.07	3.0000	2042-10-01
	31300MHQ9	PHLMC SF ARM,VARIOUS	1,300,000.00	1,196,306.80	1,221,675.74	102.16	2.6500	2044-01-01
	3136AEEF0	PN 1339C MP PAC FIX	1,105,000.00	981,901.22	972,056.38	197.47	1.7500	2028-05-25
	3138M94W8	PNMA CONV 30 YR SF	250,000.00	228,986.11	224,981.40	98.35	3.0000	2042-10-01
	3138M93R0	PNMA CONV 30 YR SF	22,900,000.00	20,142,992.06	19,790,713.48	98.35	3.0000	2042-09-01
	3138MBJ61	PNMA CONV 30 YR SF	750,000.00	662,631.88	651,043.18	196.70	3.0000	2042-09-01
	31419KDG9	PNMA CONV 30 YR SF	24,035,000.00	16,082,537.15	16,956,873.77	105.48	4.0000	2040-12-01
	31417DGF4	PNMA CONV 30 YR SF	150,000.00	139,794.48	137,131.20	98.20	3.0000	2042-10-01
	3138MBFD3	PNMA CONV 30 YR SF	415,000.00	366,903.77	386,284.43	105.32	4.0000	2042-10-01
	3138MAK56	PNMA CONV 30 YR SF	5,069,006.00	4,524,018.46	4,444,898.40	98.35	3.0000	2042-09-01
	3620AEPJ4	GNMA1 SINGLE FAMILY	3,095,000.00	1,826,125.49	1,937,972.73	106.13	4.0000	2041-09-15
	36176XUAS	GNMA1 SINGLE FAMILY	3,255,000.00	2,837,909.05	2,847,667.49	100.38	3.0000	2042-06-15

Market Value of collateral is as provided by depository institutions and 3rd-party custodial banks and the data is unaudited

Page: 1

Collateral posted is based on July 31 2014 ending balance





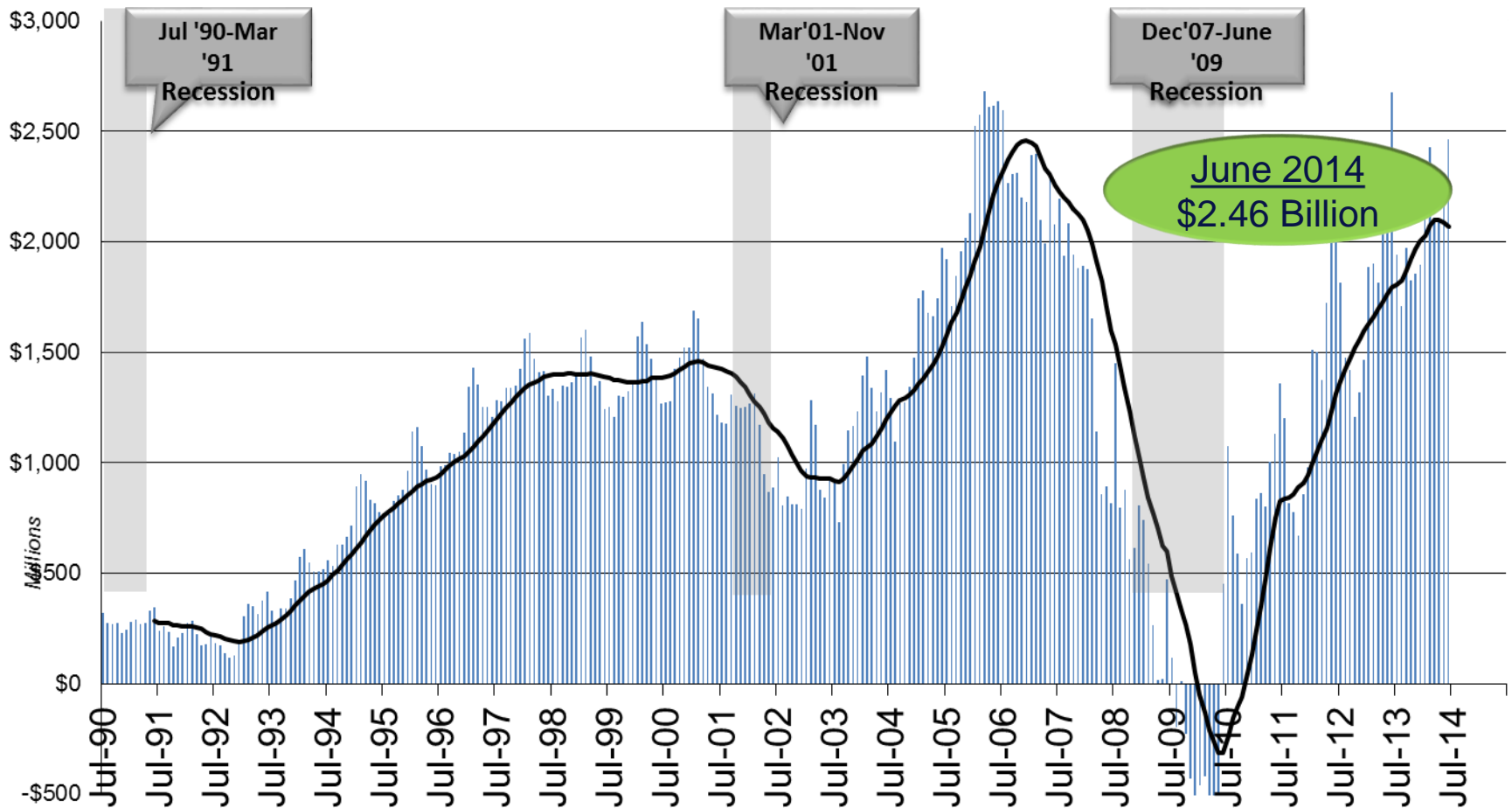
STATE CASH FLOW

OFFICE OF THE ARIZONA STATE TREASURER



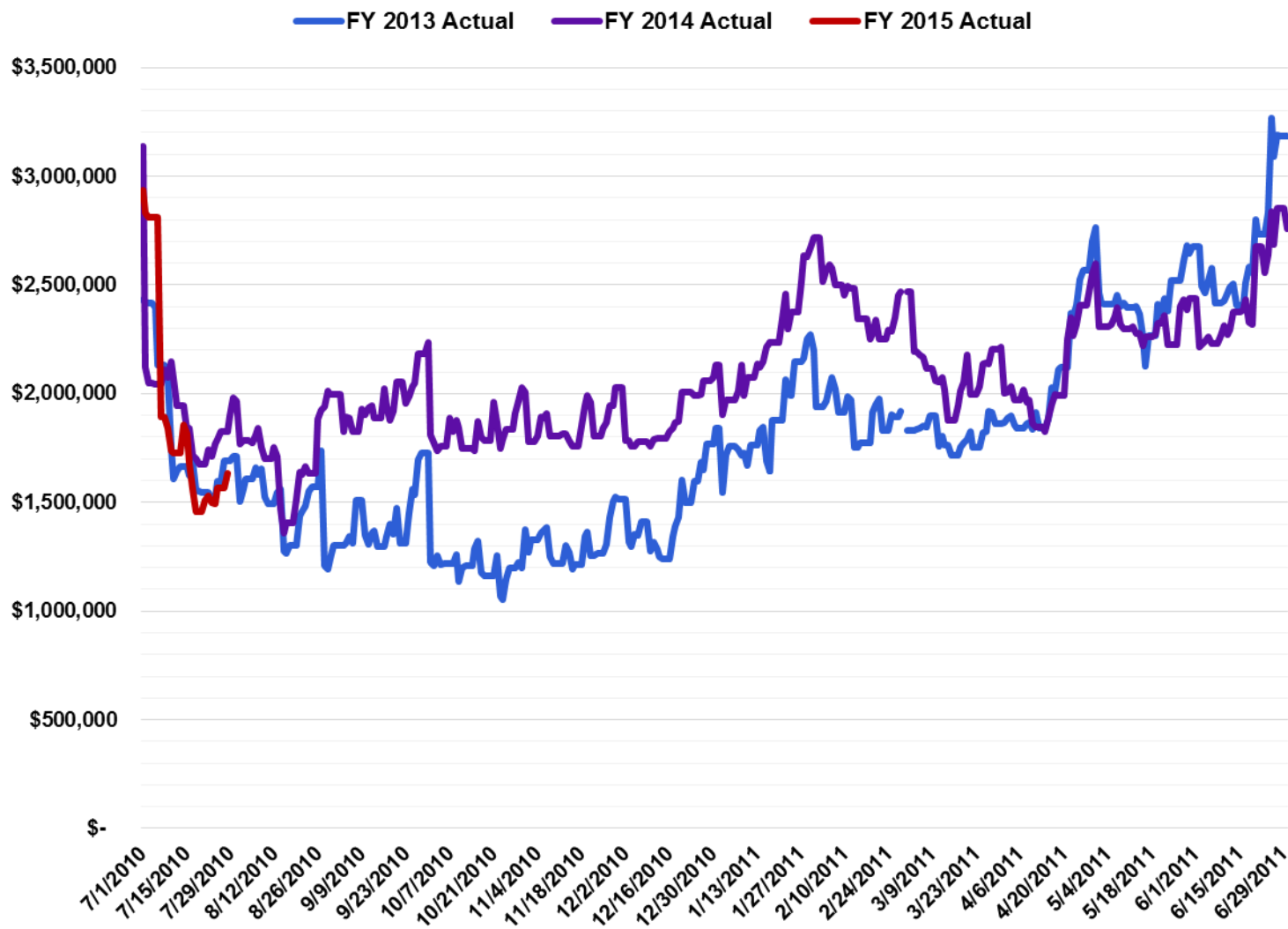
STATE CASH FLOW

TOTAL OPERATING ACCOUNT AVERAGE MONTHLY BALANCE



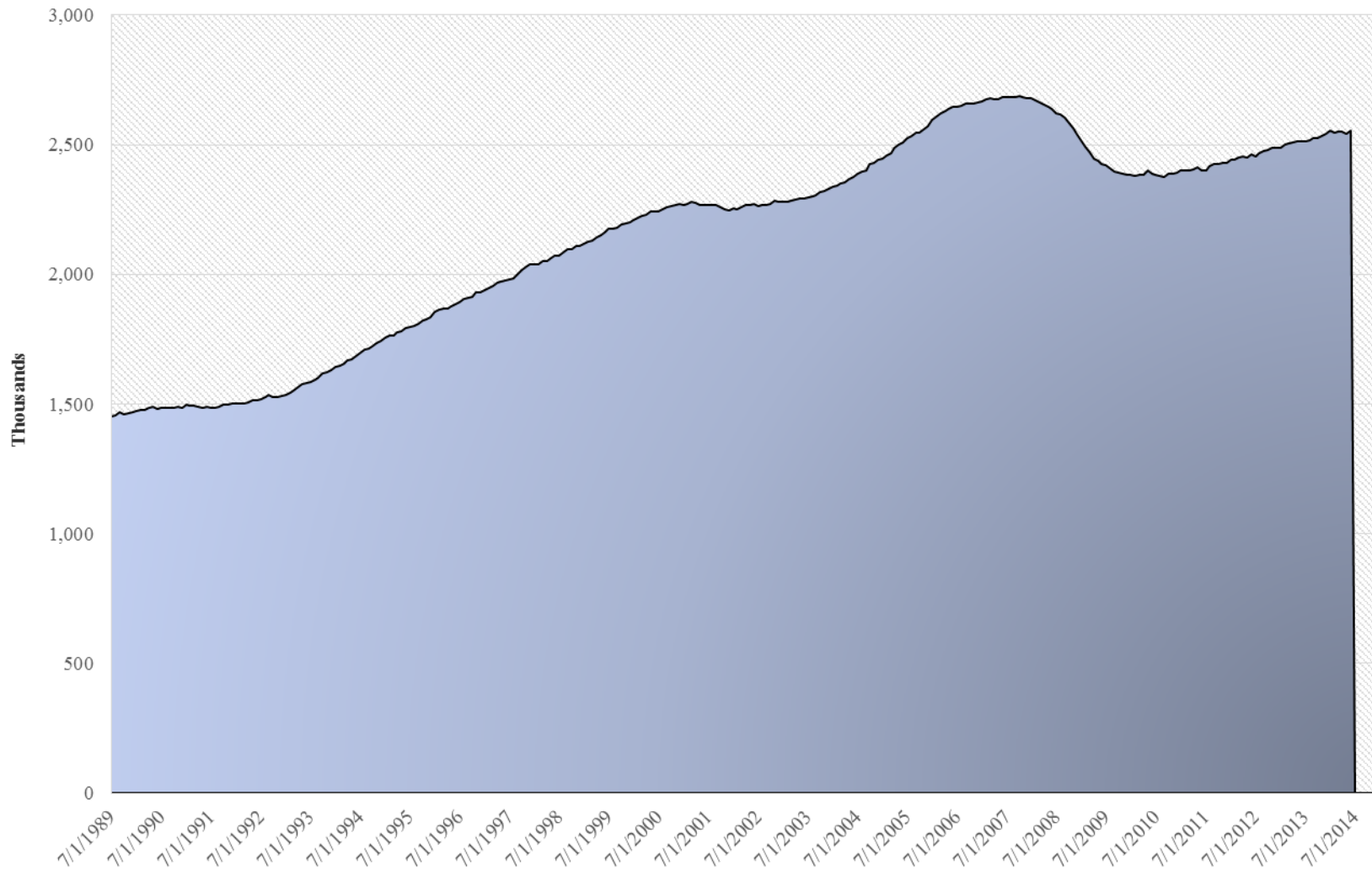
STATE CASH FLOW

YTD FY 2015 Cash Flow vs. Last Two Fiscal Years

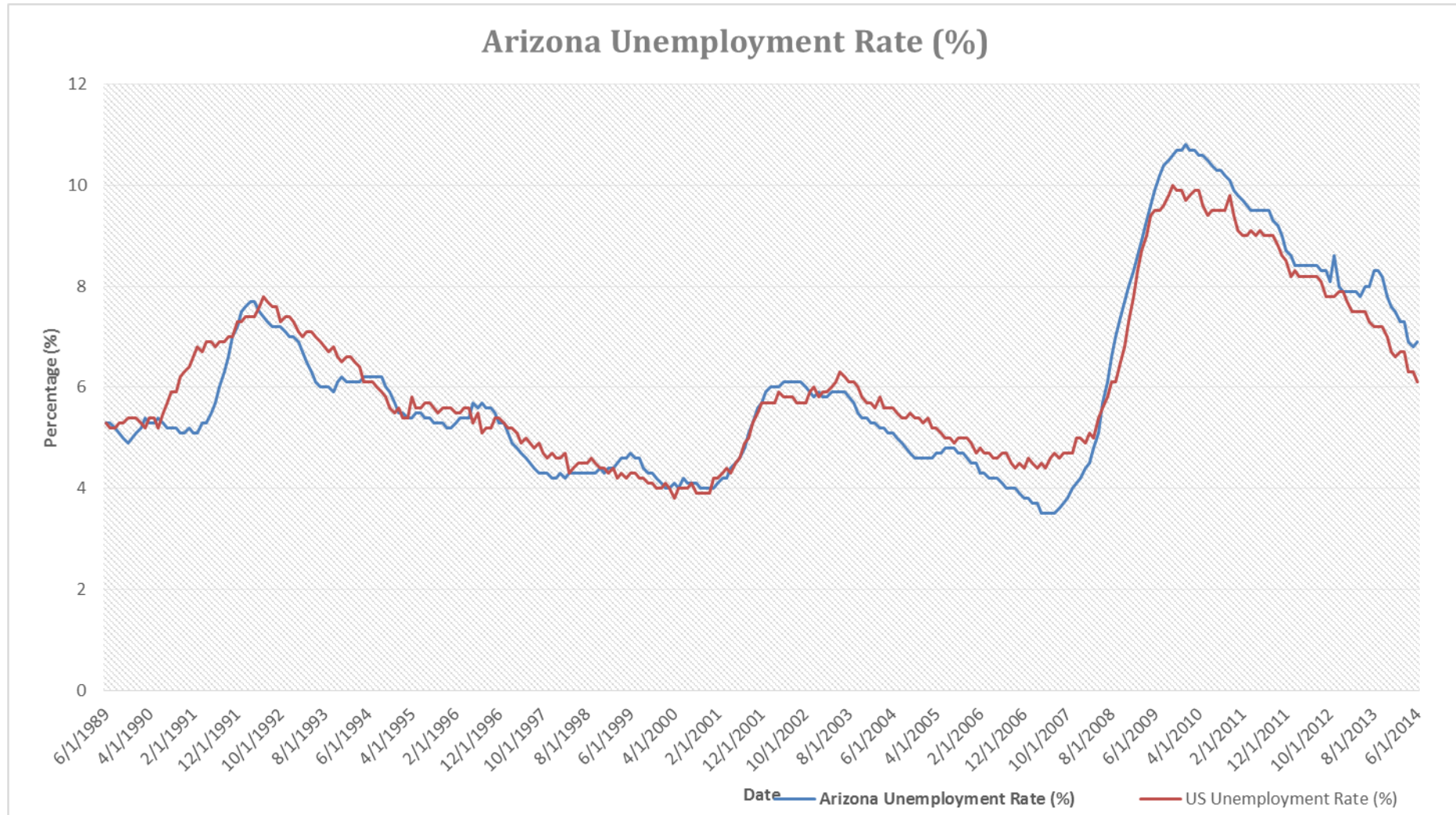


AZ NON-FARM EMPLOYMENT

Arizona Non-Farm Payrolls

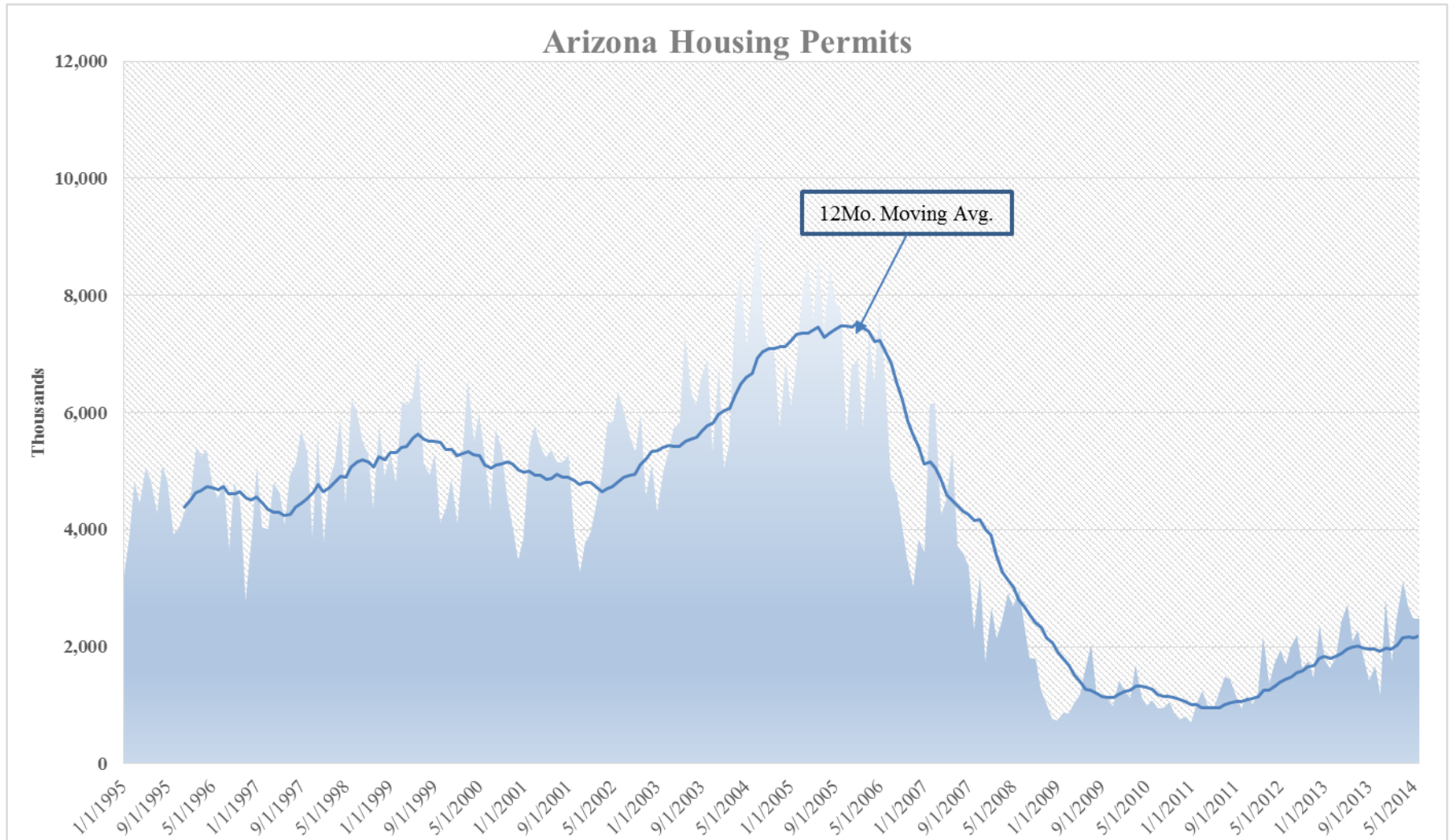


AZ UNEMPLOYMENT AT 6.9%

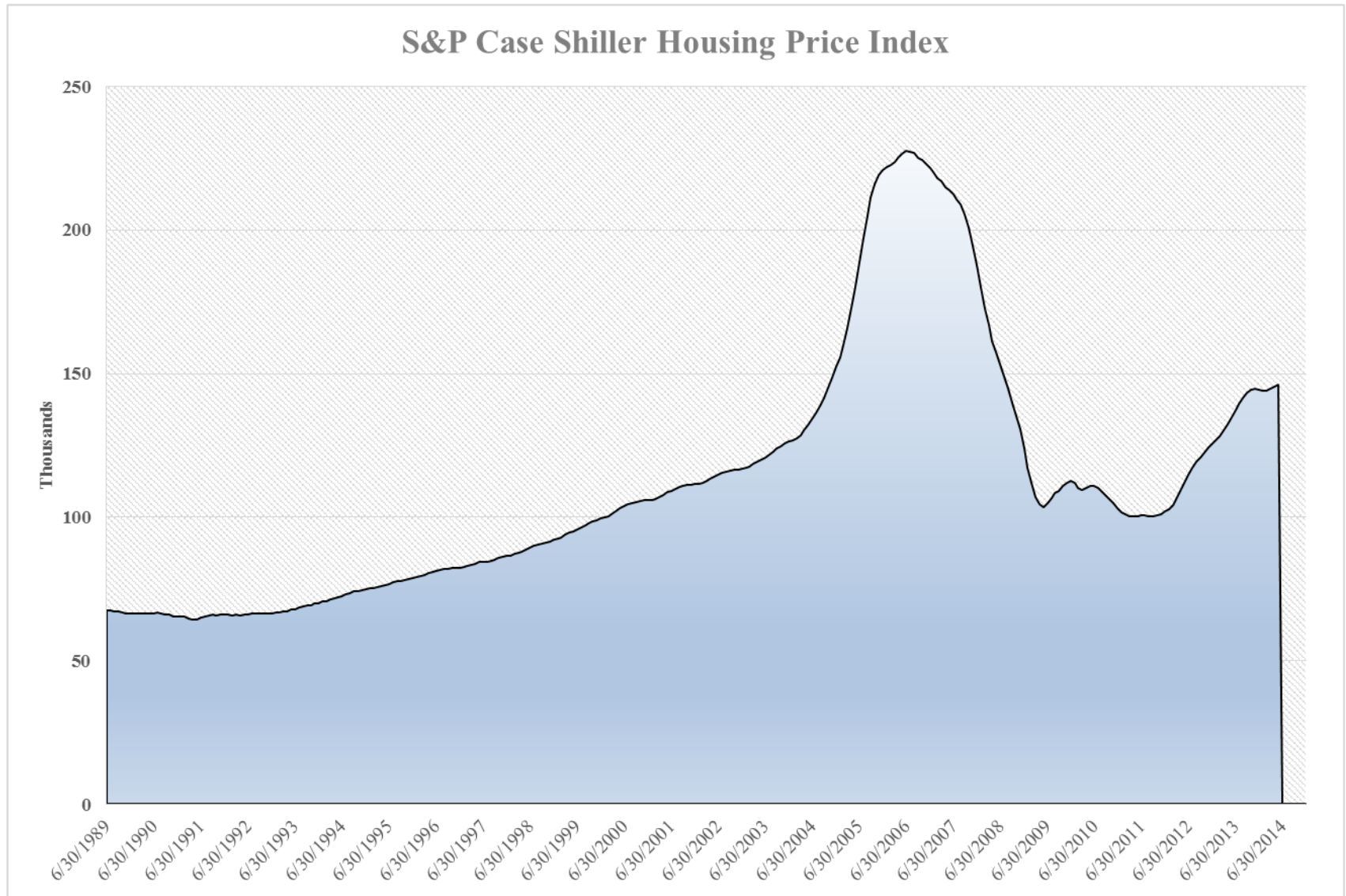


AZ HOUSING PERMITS

Total Monthly Arizona Residential Building Permits Jan. 1995 to June 2014



PHOENIX HOUSING PRICES





LGIP QUARTERLY MEETING & CONFERENCE CALL

August 7, 2014

OFFICE OF THE ARIZONA STATE TREASURER





Special Presentation

Jim Palmer, CFA

Chief Investment Officer
US Bancorp Asset Management, Inc.

OFFICE OF THE ARIZONA STATE TREASURER





Asset Management, Inc.

Presented To:

Arizona State Treasurer's Office

LGIP Quarterly Meeting

Presented By:

Jim Palmer, CFA
Chief Investment Officer
612.303.3434

NOT FDIC INSURED NO BANK GUARANTEE MAY LOSE VALUE

Current Market Conditions – Economic Outlook

Economic Growth

- U.S. GDP growth to be in the 2.5 - 3.0% range for remainder of 2014
- Q1/14 U.S GDP print of <2.9%> was more weather related and not a signal of recession

Employment Situation

- Employment Conditions will continue to improve
 - Unemployment Rate ~ 6.0% at year-end
 - Non-farm payrolls expected to grow in the 200k - 250k range
 - Demographics will continue to impact the Labor Force participation rate

Inflation Situation

- Inflation will continue to trend upward through 2014
- May Core Personal Consumption Expenditure Index = 1.5%
- Below Fed target of 2%, up from February 2014's 1.1% rate

Source: Bloomberg

Current Market Conditions – Federal Reserve Policy

Federal Reserve's Current Policies – as of 6/18/2014

- Federal Funds Target of 0.0% to 0.25% (in place since December 2008)
 - FOMC will assess target rate based on progress toward objectives of maximum employment and 2% inflation
 - Current target rate likely will be appropriate for a considerable time after the asset purchase program ends
- Current monthly asset purchases consist of \$15B in agency MBS and \$20B in U.S. Treasuries
- Tapering monthly asset purchases by \$5B each in agency MBS and U.S. Treasuries per FOMC meeting
- Asset purchases scheduled to end in October

Market Expectations

- Rate guidance by FOMC members has increased the probability of a 2015 rate hike with 13 of 16 members expecting a rate increase in 2015
- The timing of the first Fed rate hike has accelerated into mid-2015 on improved economic data and increased hawkishness from some Fed members
- Current futures and forward rates suggest rate first rate increase in mid-2015 and terminal federal funds rate of ~1% at end of 2015

Credit Market Conditions

Credit / spread product has been strong performer over past several quarters

Current credit spreads are fair but tighter than previous quarters

Credit curve remains upward sloping with reasonable steepness

Corporate credit quality remains solid but has come off of recent very high levels

- Significant increase in shareholder initiatives and mergers and acquisitions in non-financials
- Public credit rating risk has increased on corporate actions
- Financials experienced headline / regulatory risk

Technicals remain solid for investment-grade debt

- Continued strong demand from investors for spread product
- Net new issuance does not meet investor demand
- Strong primary market demand for debt – oversubscription / tighter spreads in secondary market

Investment Strategies

Yield Curve and Duration Management

- Current yield curve appears fair relative to Fed expectations
 - 0-3 year portion of the Yield Curve has steepened in line with early 2014 expectations
 - Absolute yield curve rate levels include a reasonable degree of Fed tightening
- Continued migration toward laddered structure vs. bulleted from earlier in year
- Duration directed toward becoming more neutral to benchmarks on better yield curve valuations
- Increased yield advantage of fixed-rate notes versus comparable-maturity FRNs argues for de-emphasis of FRNs

Sector Allocation

- Overweight credit and spread product to capture incremental yield and credit curve roll-down
- Asset-backed securities and U.S. financial debt are favored categories
- Increase spread duration of credit-related assets to capture upward-sloping yield curve

Risks

- Policy mistake as Fed unwinds exceptional monetary accommodation
- Geopolitical events (Ukraine, Middle East)
- Regulatory impact on markets, issuance and liquidity

Money Market Mutual Fund Reform

- **Money Market Mutual Fund Reforms include**
 - Floating NAV for institutional prime and tax-free money market funds
 - Redemption Gates and Liquidity Fees
 - Increased disclosure requirements
- **Potential Impacts of Money Market Fund Reform**
 - Assets migrate from institutional prime funds to Government / Treasury funds
 - Increased demand for 13-month and shorter Treasury bills / Agency debt / Repo
 - Increased LIBOR rates as demand for short-term CP & CDs falls
 - Increased usage of Federal Reserve Reverse Repo facility
 - Near-term impact muted by two-year phase in period for major reforms

Disclosure

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7/2014



QUESTIONS?

OFFICE OF THE ARIZONA STATE TREASURER

